



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20555-0001

November 9, 2007

OFFICE OF THE  
INSPECTOR GENERAL

MEMORANDUM TO: Chairman Klein

FROM:

  
Hubert T. Bell  
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES  
NUCLEAR REGULATORY COMMISSION'S FINANCIAL  
STATEMENTS FOR FISCAL YEARS 2007 AND 2006  
(OIG-08-A-01)

The Chief Financial Officers Act of 1990, as amended, (CFO Act) requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the United States Nuclear Regulatory Commission's (NRC) financial statements in accordance with applicable standards. In compliance with this requirement, this memorandum transmits the following R. Navarro & Associates, Inc. Auditors' Reports:

- Independent Auditors' Report on the Financial Statements,
- Independent Auditors' Report on the Effectiveness of Internal Control over Financial Reporting, and
- Report on Compliance with Laws and Regulations.

***Objective of a Financial Statement Audit***

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

R. Navarro & Associates' examination was made in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal controls over financial reporting and testing and evaluating

the design and operating effectiveness of the internal controls. Because of inherent limitations in any internal control, there is a risk that errors or fraud may occur and not be detected. Also, projections of an evaluation of internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

### ***Results of Audit***

The results are as follows:

#### Financial Statements

- FYs 2007 and 2006 - Unqualified opinion

#### FY 2007 Internal Controls

- Qualified opinion
- Significant Deficiencies:
  - Information Systems Security Controls (Continuing Material Weakness)
  - Fee Billing System (Significant Deficiency)

#### FY 2007 Compliance with Laws and Regulations

- Substantial Noncompliance:
  - Information Systems Security Controls

### ***OIG Oversight of R. Navarro & Associates, Inc. Performance***

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored R. Navarro & Associates' audit of NRC's FYs 2007 and 2006 financial statements by:

- Reviewing their approach and planning of the audit,
- Evaluating the qualifications and independence of its auditors,
- Monitoring the progress of the audit at key points,
- Examining the working papers related to planning and performing the audit and assessing NRC's internal control,

- Reviewing R. Navarro & Associates' audit reports to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04,
- Coordinating the issuance of the audit reports, and
- Performing other procedures that we deemed necessary.

R. Navarro & Associates, Inc. is responsible for the attached auditors' reports, dated November 7, 2007, and the conclusions expressed therein. The Office of the Inspector General (OIG) is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our review, as differentiated from an audit in conformance with *Government Auditing Standards*, was not intended to enable us to express, and accordingly we do not express, an opinion on:

- NRC's financial statements,
- The effectiveness of NRC's internal control over financial reporting, or
- NRC's compliance with laws and regulations.

However, our monitoring review, as described above, disclosed no instances where R. Navarro & Associates, Inc. did not comply with applicable auditing standards.

### ***Performance Reporting***

As required by OMB Bulletin No. 07-04, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we:

- Obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and
- Determined whether they have been placed in operation.

Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

### ***Meeting with the Chief Financial Officer***

At the exit conference on November 7, 2007, representatives of the Office of the Chief Financial Officer, OIG, and R. Navarro & Associates, Inc. discussed the issues in the report related to the results of the audit.

***Comments of the Chief Financial Officer***

In his response, the CFO agreed with the auditors' recommendations. We will follow-up on the CFO's implementation of planned corrective actions during FY 2008. The full text of the CFO's response follows this report.

We appreciate NRC staff's cooperation and continued interest in improving financial management within NRC.

Attachments: As stated

cc: Commissioner Jaczko  
Commissioner Lyons